

# 2020 Session Revenue and Budget Outlook

Annual Meeting  
November 21, 2019

# Topics:

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Recap of 2019 Session Actions

GF Revenue Outlook

2020-22 Budget Pressures & 2020 Session Outlook

# Recap of the 2019 Session

# 2019 Session Recap

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- FY 2018 ended with a total GF surplus of \$555.5 million setting up a good starting point for the adjustments to Chapter 2 (2018 Special Session I).
- Major Spending in the 2019 Budget – Chapter 854:
  - \$475 million for deposits to the Revenue Reserve Fund (bringing the two-year total to \$566 million);
  - \$424 million for increased Medicaid utilization and inflation costs;
  - \$263 million Mandatory Deposit to the “Rainy Day” Fund;
  - \$115 million up to 5% pay increases for teachers, state, & state supported local employees;
  - \$98 million set aside appropriation for “Rainy Day” Fund Deposit;
  - \$74 million for the Water Quality Improvement Fund (mandatory deposit);
  - \$53 million for tuition moderation for in-state undergraduate students;
  - \$50 million for Semiconductor Manufacturing Grant;
  - \$25 million for K-12 At-Risk Add-on; and
  - \$1.1 billion in tax-supported bonds for Capital Outlay projects (bringing total for the biennium to \$2.1 billion).

# FY 2019 Results

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## GF Collections Exceeded the Forecast by \$797.7 million

- GF revenues grew 7.2 percent, 3.9 percent above the official estimate of 3.3 percent growth.
- After subtracting the \$455 million certified Taxpayer Relief Fund deposit (which was not included in the official revenue estimate), net revenues exceeded the forecast by 1.6 percent.
  - The Taxpayer Relief Fund is funded using revenues collected strictly as a result of federal tax law changes (i.e. the Tax Cuts and Jobs Act of 2017, or "TCJA") and is intended to offset increases in taxpayers' state income tax liabilities resulting from enactment of the TCJA.
- Additional revenue gains are driven primarily by better than expected individual nonwithholding payments and lower than expected individual tax refunds.
- Corporate income tax collections missed the forecast by 7.9 percentage points.
- Sales tax collections also fell short of the forecast by 0.3 percentage point.

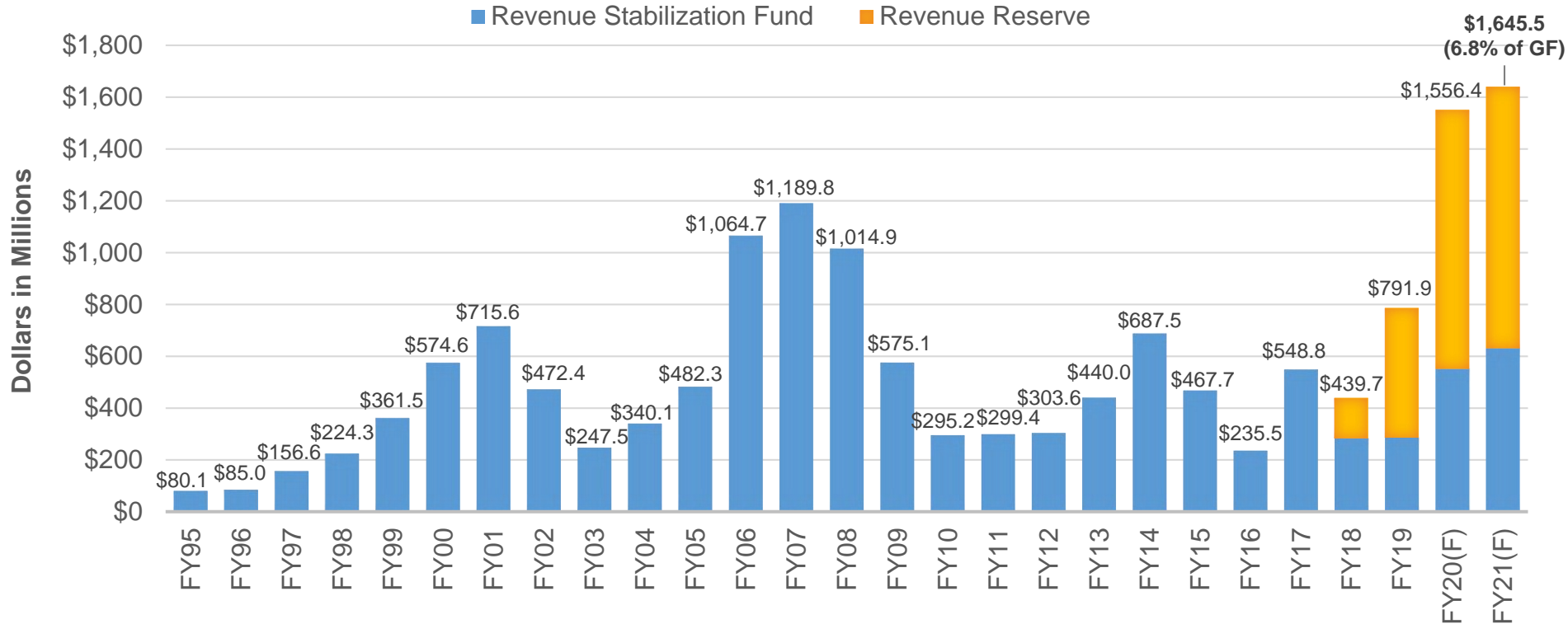
# Combined Reserves are Expected to Exceed \$1.6 Billion by the End of FY 2021

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- The Administration and General Assembly prioritized preserving Virginia's AAA bond rating by increasing reserves in order to provide for greater liquidity and resiliency.
  - The Governor intends to assign the balance of the FY 2019 revenue surplus, \$270 million, to the Revenue Reserve Fund.
  - Revenue surplus triggers an additional mandatory deposit to the Revenue Stabilization Fund ("Rainy Day") in FY 2021.
    - There is a \$262.9 million mandatory deposit in FY 2020 (based on FY 2018 revenues).
    - Set aside for FY 2021 for the required deposit of \$77.4 million.

# Combined Reserves are Expected to Exceed \$1.6 Billion by the End of FY 2021

## Total Reserve Fund Balances



# Virginia's Response to Federal Tax Changes

## Key Provisions of the Tax Cuts and Jobs Act (“TCJA”)

- Lower federal income tax brackets: 10%, 15%, 22%, 25%, 32%, 35%, and 37%.
- Most individual provisions expire after taxable year 2025.
- Standard deduction increased from \$6,350 to \$12,000 for single filers, and from \$12,700 to \$24,000 for married/joint filers; personal exemptions eliminated.
- State and local tax (“SALT”) deduction capped at \$10,000.
- Cap on mortgage interest deduction reduced.
- Repeal of overall limitation on itemized deductions (“Pease Limitation”).
- Significantly lower 21 percent flat corporate tax rate.
- Interest deduction limited to 30 percent of a business’s adjusted income.
- Transition tax on deferred foreign earnings: 15.5 percent (cash) / 8 percent (non-cash).
- Requirement that shareholders of certain controlled foreign corporations include their pro rata share of Global Intangible Low-Tax Income (“GILTI”) in gross income.

# Virginia 2019 Tax Conformity Bill

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## Taxpayer Relief Fund

- The 2019 General Assembly created the Taxpayer Relief Fund to capture and return to taxpayers additional, temporary state tax revenues collected as a result of federal tax law changes (Chapters 17 and 18 of the 2019 Acts of Assembly).
- The Fund provided for an income tax refund, not to exceed a taxpayer's tax liability of up to \$110 for individuals and \$220 for married persons filing a joint return.
  - \$431 million set aside to fully fund taxpayer refunds.
  - Refunds were issued between September 16 and October 15.
- For fiscal years 2019 through 2025, any additional revenues attributable to the TCJA accrue to the Fund to be used for additional future tax reform measures.
  - In addition to the refunds, out of the FY 2019 surplus, \$24 million was deposited to the Taxpayer Relief Fund.

# Virginia 2019 Tax Conformity Bill (cont.)

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## Other Tax Policy Changes

- Advanced the date of Conformity with federal tax law, ensuring Virginians were able to file their state taxes without complications.
- For tax years 2019 through 2025, raises the Virginia standard deduction from \$3,000 to \$4,500 for single filers and from \$6,000 to \$9,000 for married/joint filers.
- Deconforms from the \$10,000 limitation on state and local tax (“SALT”) deductions imposed at the federal level.
- Business taxpayers also benefit from (1) a deduction for 20 percent of net interest expenses that are newly disallowed under the TCJA, and (2) a deduction for the new classification of foreign income defined in the TCJA as Global Intangible Low-taxed Income (“GILTI”).
- Continues the overall limitation on the amount of itemized deductions that high-income taxpayers may claim on their Virginia tax returns beginning in 2019 (“Pease Limitation”).

# Taxpayer Relief Fund: Estimated Deposits

(\$ in millions)	FY 2019		FY 2020	FY 2021	FY 2022
	Original	Year-end			
Conform with TCJA Individual Provisions	\$532.1	\$466.0	\$443.8	\$466.7	\$492.5
<i>Tax Relief:</i>					
Refund of up to \$110 (single) / \$220 (married/joint)	(\$419.4)	(\$431)*	-	-	-
Deconform from GILTI	(7.1)	(0.6)	(5.4)	(5.5)	(5.8)
Subtraction for 20% of disallowed net interest deduction	(24.6)	(10.0)	(18.0)	(18.7)	(19.7)
Deconform from SALT deduction limitation	-	-	(55.6)	(41.7)	(46.7)
Increase the standard deduction to \$4,500 / \$9,000	-	-	(359.7)	(235.7)	(236.9)
Limitation on itemized deductions ("Pease Limitation")	<u>-</u>	<u>-</u>	<u>107.5</u>	<u>73.3</u>	<u>76.2</u>
<b>Subtotal Tax Relief</b>	<b>(\$451.1)</b>	<b>(\$441.6)</b>	<b>(\$331.2)</b>	<b>(\$228.3)</b>	<b>(\$233.0)</b>
Net GF Impact, TCJA Individual Provisions	\$81.1	\$24.4*	\$112.6	\$238.5	\$259.5
Exclude Pease Limitation from Taxpayer Relief Fund	<u>-</u>	<u>-</u>	<u>(107.5)</u>	<u>(73.3)</u>	<u>(76.2)</u>
<b>Net Deposit to Taxpayer Relief Fund</b>	<b>\$81.1</b>	<b>\$24.4*</b>	<b>\$5.1</b>	<b>\$165.2</b>	<b>\$183.3</b>

\*Estimate. Actual impact of refunds and resulting deposit to the Taxpayer Relief Fund may be more or less.

# South Dakota v. Wayfair Changed How Nexus is Determined

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- In 2018, the U.S. Supreme Court's *South Dakota v. Wayfair, Inc.* decision overturned the physical-presence rule that had applied to collecting sales tax on interstate sales.
  - Established nexus based on economic presence.
- The decision enabled states to require online and out-of-state sellers—even those with no physical presence—to collect sales tax, so long as the state can demonstrate a connection based on something else, such as volume of in-state sales.
- The South Dakota law prompting the Supreme Court decision includes a number of important provisions, including:
  - Minimum thresholds and volumes (\$100,000 in sales or 200 transactions);
  - Simplified collection process; and
  - No retroactivity.

# Virginia's Remote Sellers' Legislation

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- Chapters 815 and 816, 2019 Acts of Assembly (HB 1722/SB 1083), require marketplace facilitators and out-of-state dealers to register for the collection of the Retail Sales and Use Tax if annual sales to Virginia customers exceed either \$100,000 in gross revenue or 200 transactions.
  - Also removed contingencies from House Bill 2313 (2013) pertaining to the effects of federal remote collection authority on sales tax revenue distribution and the Motor Fuels Tax rate.
- Generates an estimated \$155 million in state and local tax revenue (\$82.5 million GF) in FY 2020, and up to \$175 million per year (\$93.1 million GF) in FY 2021-22.
  - Actual year-to-date collections point to better than expected revenues from new online sellers.

# GF Revenue Outlook

# SFC Staff General Fund Revenue Outlook

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## Policy Changes, Potential Slowdown Warrant Caution

- FY 2020 year-to-date collections are well ahead of budget. However, tax policy changes and taxpayers' behavior related to the TCJA may result in significantly lower nonwithholding income tax collections in the fourth quarter.
- Economic growth continues, but trade uncertainty and slowing global economy have some economists suggesting there is a higher likelihood of a slowdown in the next biennium.
- Increasing wages and continued employment growth will drive steady year-over-year gains in withholding of 4.0 to 4.4 percent throughout the forecast horizon.
- Sales tax collections will exceed the official forecast with better than expected revenues resulting from the *Wayfair* legislation; broader trends in sales point to slower growth in sales tax collections in longer term.
- Staff recommend a conservative revenue forecast that accounts for a potentially steep decline in nonwithholding tax collections this fiscal year and slightly below trend growth in FY 2021-22.

# FY 2020: Year-to-Date GF Revenues are Well Ahead of Budget

Major Sources (\$ in millions)	Jul - Oct FY 2020	Jul - Oct FY 2019	Change (%)	
			Actual	Req by Est
Withholding	\$4,268.5	\$4,036.8	5.7	4.2
Nonwithholding	800.5	663.2	20.7	(3.5)
Refunds	<u>(254.6)</u>	<u>(221.3)</u>	<u>15.0</u>	<u>21.7</u>
Net Individual	<u>\$4,814.5</u>	<u>\$4,478.7</u>	<u>7.5</u>	<u>0.2</u>
Sales	\$1,087.6	\$1,007.4	8.0	4.2
Corporate	277.6	239.6	15.9	9.3
Wills/Suits/Deeds	164.4	130.7	25.8	(4.6)
Insurance	-	-	-	7.4
All Other	<u>202.0</u>	<u>175.5</u>	<u>15.1</u>	<u>(6.3)</u>
<b>Total GF Revenue</b>	<b>\$6,546.1</b>	<b>\$6,031.9</b>	<b>8.5</b>	<b>1.2</b>

- Fiscal YTD GF revenue collections are up 8.5 percent year-over-year, 7.3 percentage points above the 1.2 percent required to meet the estimate assumed in Chapter 854.
- Individual income, sales, corporate and recordation tax collections are all above expectations.

# Tax Policy Changes Adopted in 2019 Reduce Anticipated Revenue Collections

## Revenue Impacts – Tax Policy Changes

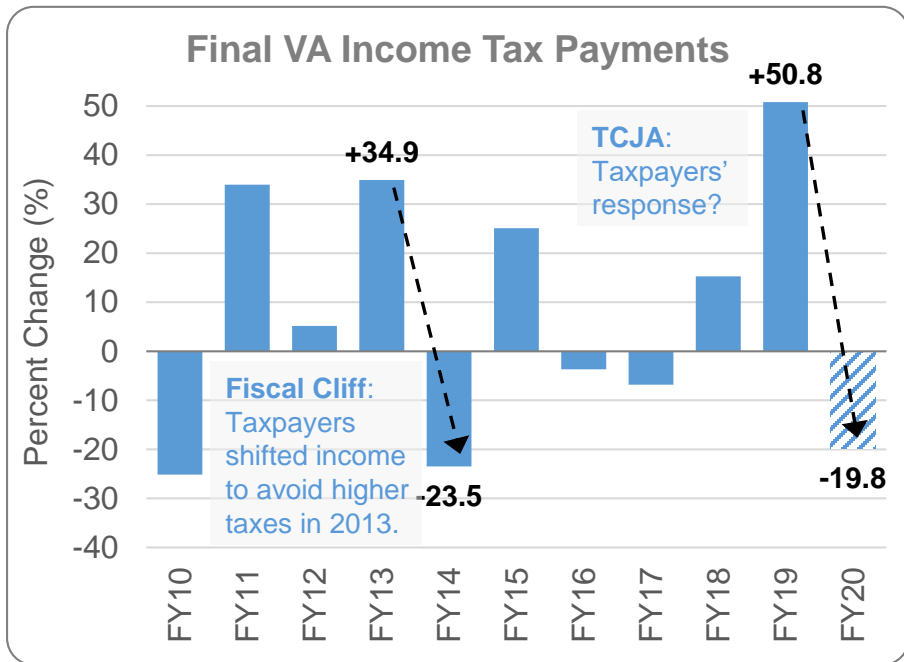
(\$ in millions)	FY 2020	FY 2021	FY 2022
Increase the standard deduction to \$4,500 (single) / \$9,000 (married)*	(\$359.7)	(\$235.7)	(\$236.9)
Deconform from state and local tax deduction limitation (SALT)	(55.6)	(41.7)	(46.7)
Subtraction for 1/5th of disallowed net interest expense deduction	(18.0)	(18.7)	(19.7)
Deconform from GILTI	(5.4)	(5.5)	(5.8)
Limitation on itemized deductions (Virginia “Pease Limitation”)	<u>107.5</u>	<u>73.3</u>	<u>76.2</u>
<b>Total</b>	<b>(\$331.2)</b>	<b>(\$228.3)</b>	<b>(\$233.0)</b>

Source: Virginia Department of Taxation.

\* Estimate may be understated as the number of taxpayers switching to the standard deduction in tax year 2018 was significantly higher than originally projected.

- The full impact of these changes won't be realized until the fourth quarter when final individual income tax payments are received and tax refunds are issued.

# Taxpayers' Response to TCJA Make Forecasting Nonwithholding Tax Collections Difficult



Source: Virginia Department of Taxation; SFC Staff estimates.

- In addition to state tax policy changes, the behavior of high-income taxpayers can cause large swings in nonwithholding tax collections (e.g. FY 2013-14).
- Large individual payments in April and May of 2019 more than doubled compared to 2018, from \$201.8 million to \$463.8 million.
- Because of the uncertainty, staff recommend anticipating a sizable decline in total year-over-year nonwithholding collections.

# Caution: Potential Volatility Late in the Fiscal Year

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## Softening revenue collections led to shortfalls in the past

### 2014

- Underestimated the impact of taxpayer behavior related to federal tax policy with respect to final payments and refunds.
- Did not sufficiently adjust budget expectations during the 2014 session which resulted in a \$2.4 billion shortfall that had to be addressed in the 2015 session.

### 2016

- Overly optimistic revenue outlook in the fall.
- Maintained revenue forecast mid-session despite trailing the forecast through January, resulting in a combined \$1.5 billion budget shortfall.

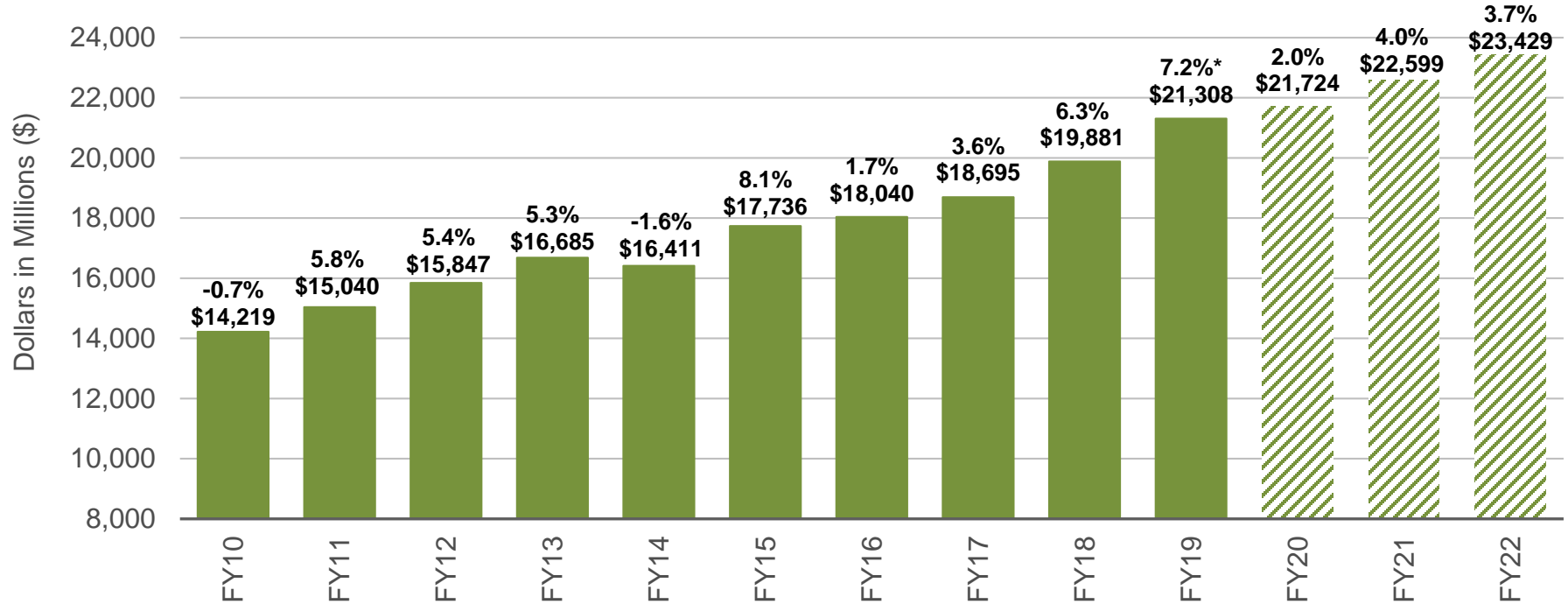
# SFC Staff General Fund Revenue Forecast

(\$ in millions)	Actual	SFC Staff Estimate		
	FY 2019	FY 2020	FY 2021	FY 2022
<b>Growth by Revenue Source</b>				
Individual Income	7.9%	0.3%	4.7%	4.0%
Sales & Use	3.4%	6.5%	2.1%	2.8%
Corporate	9.5%	9.3%	5.7%	5.6%
All Other Revenue Sources	<u>7.2%</u>	<u>3.5%</u>	<u>1.4%</u>	<u>1.3%</u>
<b>Total GF Revenue Growth</b>	<b>7.2%*</b>	<b>2.0%</b>	<b>4.0%</b>	<b>3.7%</b>
<b>General Fund Revenues</b>	<b>\$21,306.7</b>	<b>\$21,724.3</b>	<b>\$22,598.9</b>	<b>\$23,428.5</b>
<b>Transfers</b>	<b><u>658.0</u></b>	<b><u>655.8</u></b>	<b><u>674.6</u></b>	<b><u>690.9</u></b>
<b>Total GF Resources</b>	<b>\$21,964.6</b>	<b>\$22,380.1</b>	<b>\$23,273.5</b>	<b>\$24,119.4</b>
<b>GF Resources Above Official Forecast</b>	<b>\$797.9</b>	<b>\$187.6</b>		

\*Excluding commitments to the Taxpayer Relief Fund, FY 2019 GF revenues grew 4.9 percent.

# SFC Staff General Fund Revenue Forecast

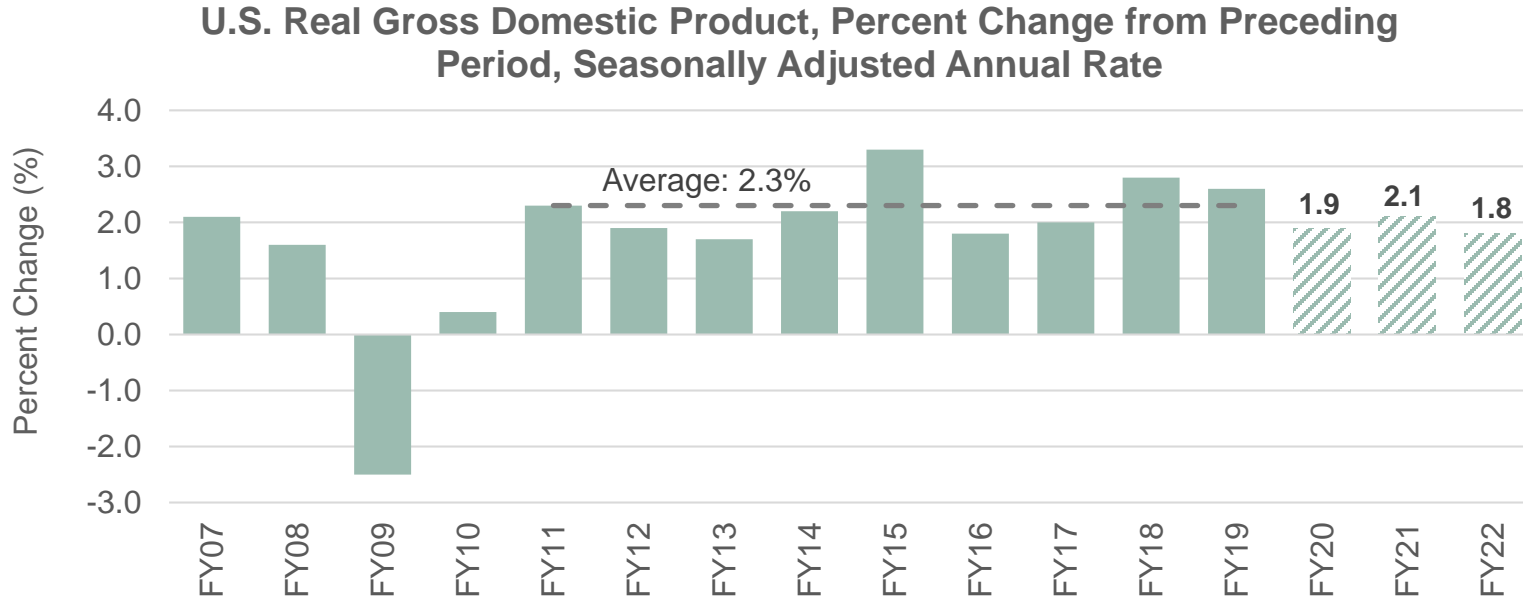
Actual and SFC Projected Revenues, Excluding Transfers



\*Excluding commitments to the Taxpayer Relief Fund, FY 2019 GF revenues grew 4.9 percent.

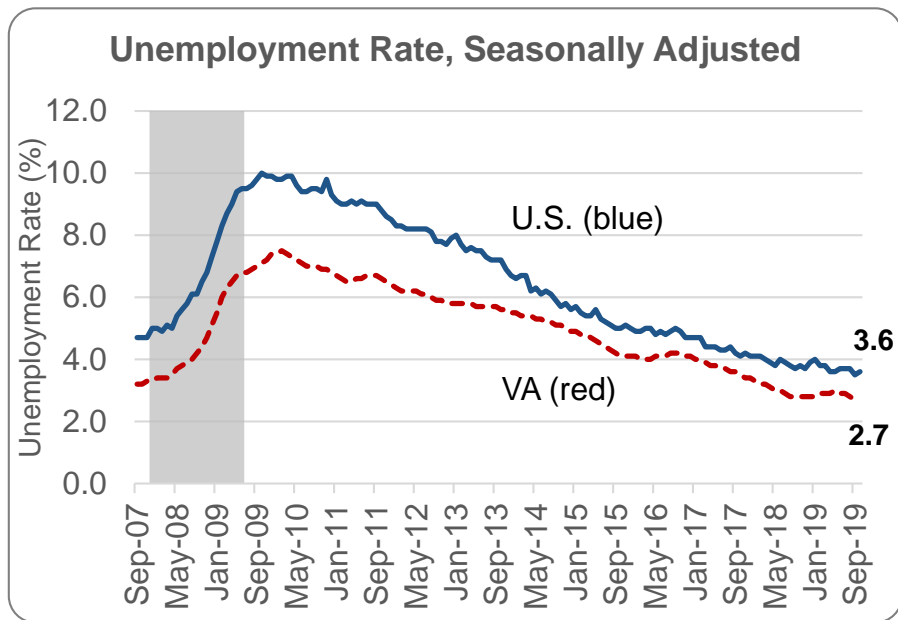
# Revenue Outlook Assumes Economic Growth Will Moderate Somewhat

- The staff revenue outlook assumes economic growth of 1.8 to 2.1 percent over the forecast horizon, slightly below the post-recession average of 2.3 percent.



Source: Virginia Department of Taxation.

# Labor Market Is Strong

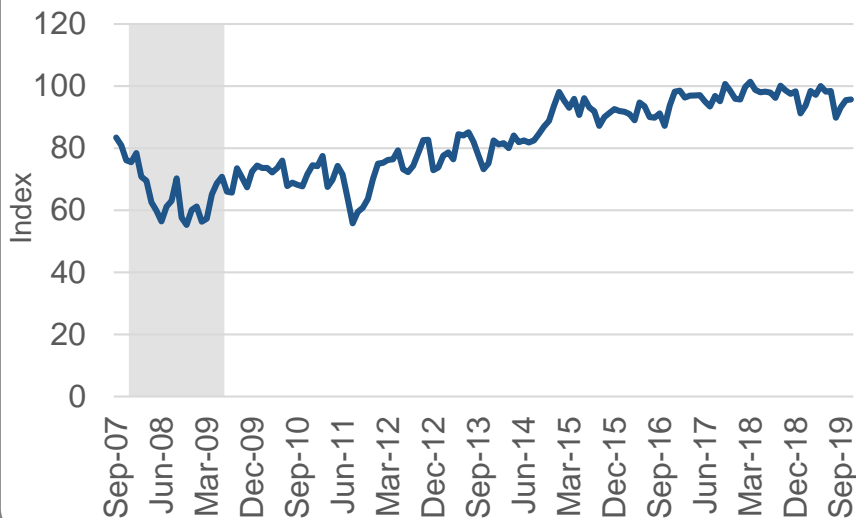


Source: U.S. Bureau of Labor Statistics.

- Lowest U.S. unemployment rate in the last half-century.
- Virginia unemployment rate is now lower than it was before the Great Recession.
- Employment continues to grow, but job growth is slowing as labor becomes more scarce.
- U.S. employment growth averaging 167,000 new payrolls each month (down from 220,000+ in 2018).
- Virginia job growth is lagging the U.S. at just 0.6 percent growth (September 2019).

# Consumer Sentiment Remains Upbeat

Index of Consumer Sentiment



Source: Federal Reserve Bank of St. Louis and University of Michigan.

- The mood of U.S. consumers remains optimistic.
- Buoyed by strong job market and lower interest rates.
- Supports continued growth in consumer spending.
- National Retail Federation expects holiday sales to grow 3.8 to 4.2 percent this year.

# The Possibility of a Slowdown Looms

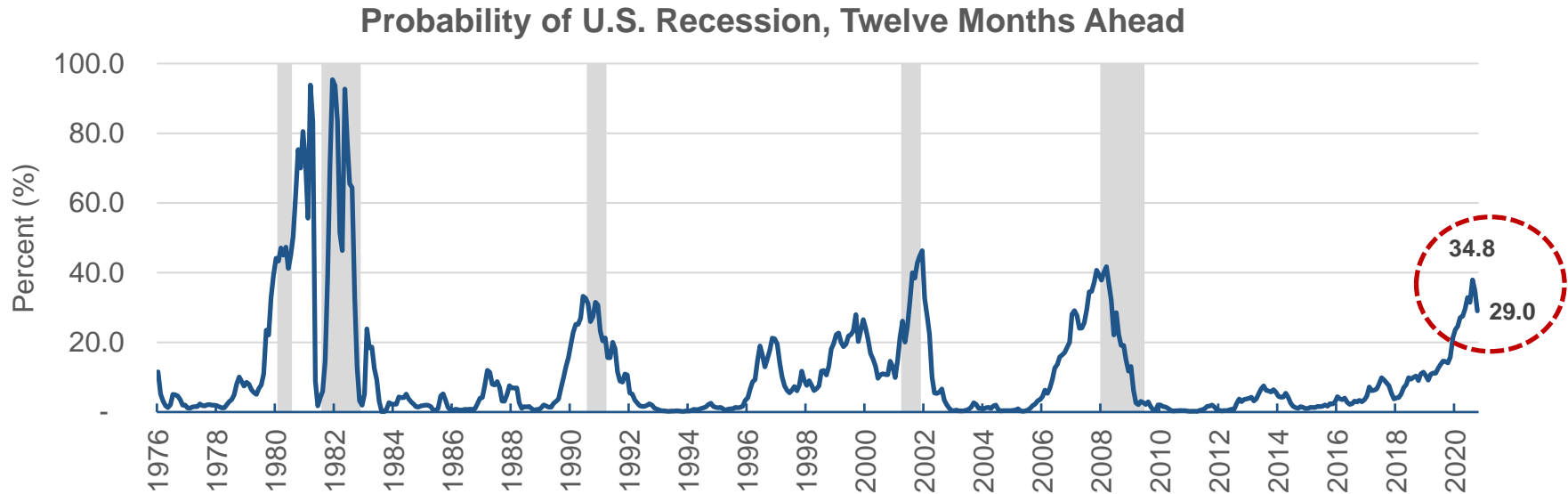
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## Data Suggest Increased Likelihood of a Downturn

- November Wall Street Journal survey of professional forecasters reports 30.2 percent probability of recession in the next 12 months, up from 19.6 percent in November of 2018, and three-fifths of respondents expect the next recession to start in either 2020 or 2021.
- Moody's Analytics puts the odds of a slow-growth recession in the next 12 months at approximately 50/50.
- Business confidence is falling. The Conference Board's CEO survey at the lowest level since the first quarter of 2009.
- Business investment fell by 3 percent (annualized rate) in the third quarter – the second consecutive quarterly decline and the steepest drop since 2015.
- The manufacturing sector is contracting. The Institute of Supply Management's Purchasing Managers Index fell below 50 in August, September and October.

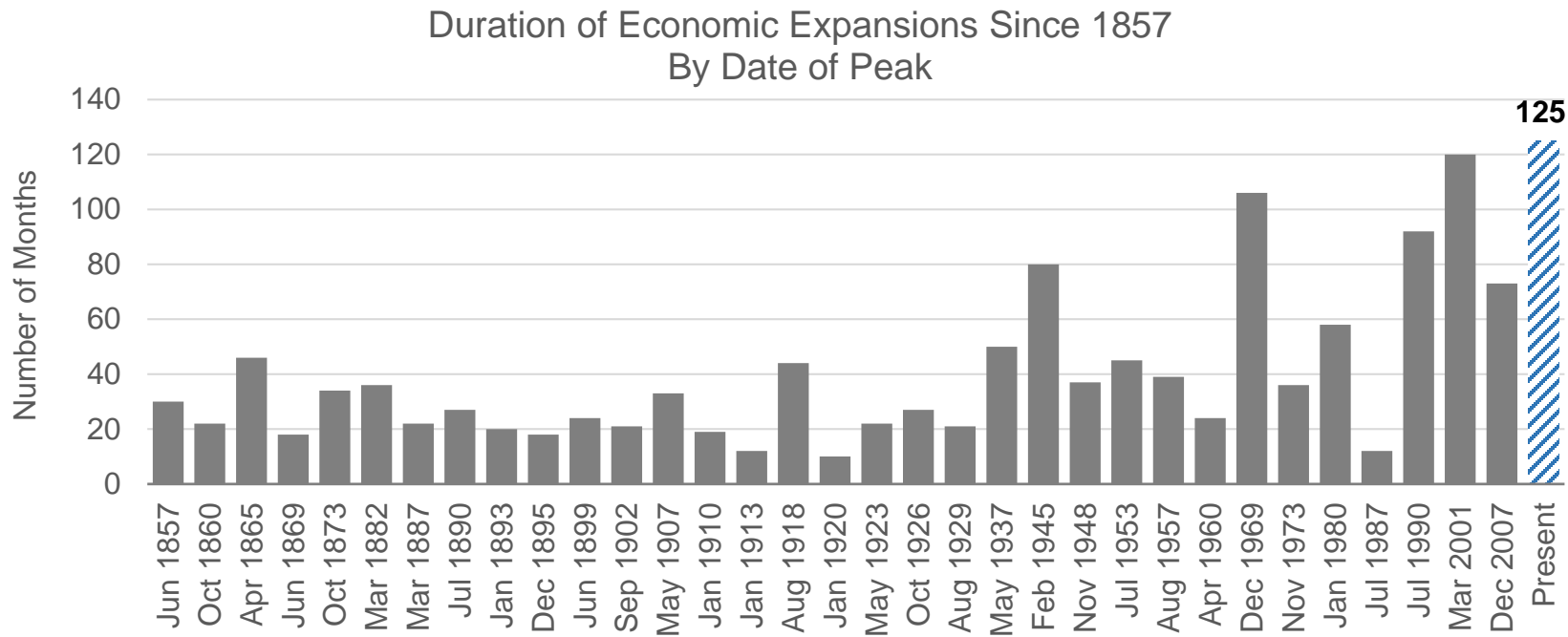
# NY Fed Model Shows Moderate Likelihood of Recession

- The NY Fed model uses the slope of the yield curve to calculate the probability of a recession in the next 12 months.
- A reading above 30 has preceded every recession since 1960.



Source: Federal Reserve Bank of New York.

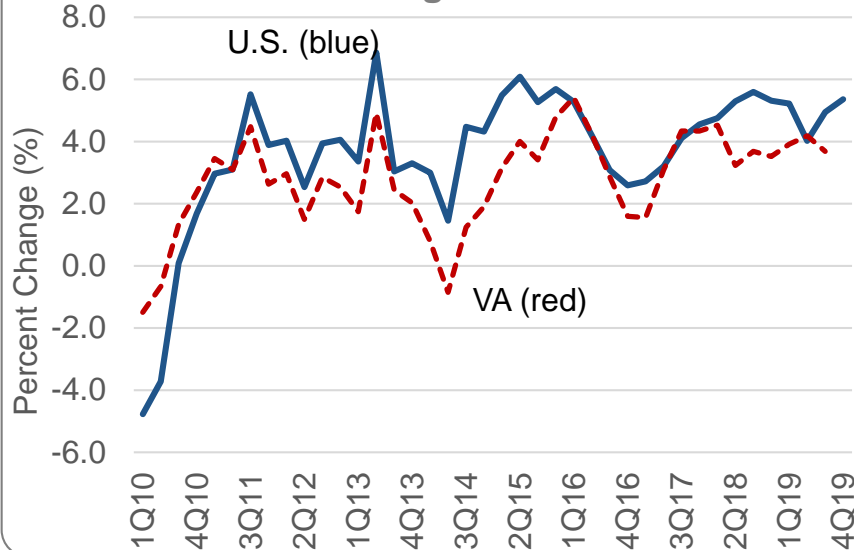
# Current Expansion is the Longest on Record



Source: National Bureau of Economic Research, Inc.

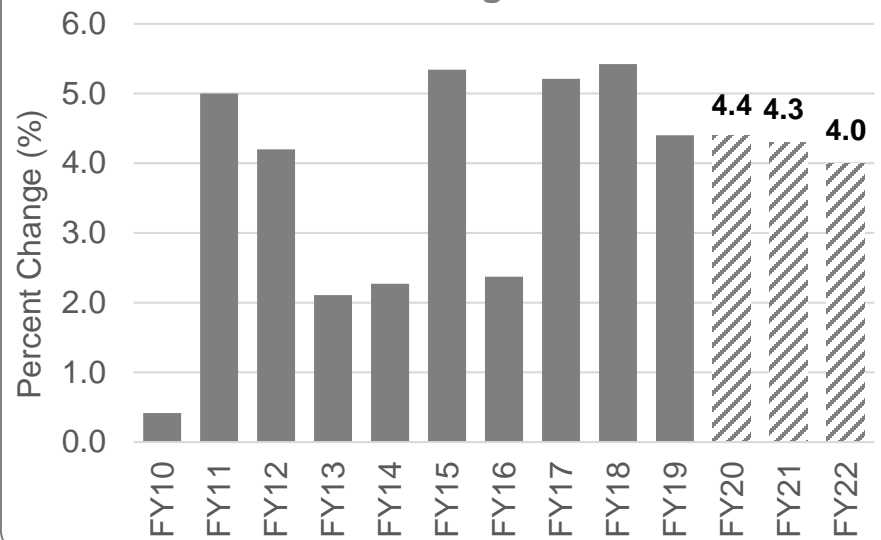
# Wage Growth Drives Continued Gains in Withholding Tax Collections

## Growth in Wages and Salaries



Source: Federal Reserve Bank of St. Louis and U.S. Bureau of Economic Analysis.

## Growth in Withholding Tax Collections

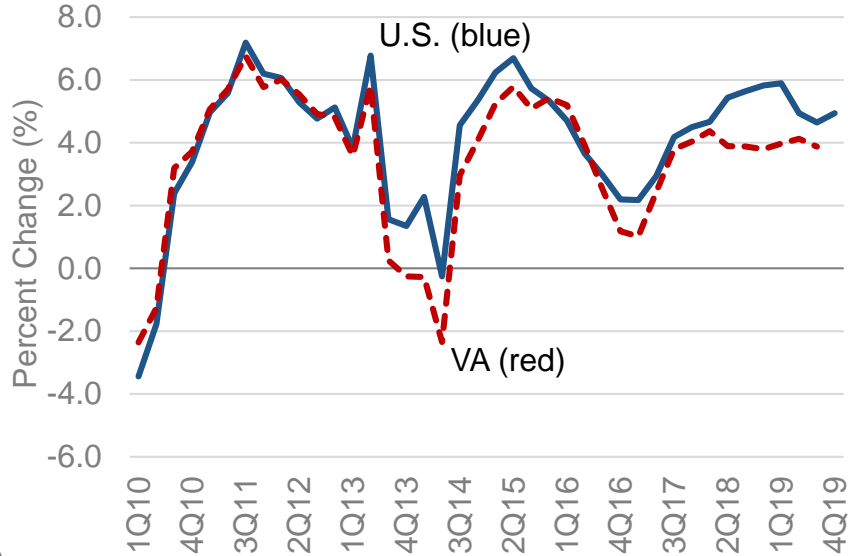


Source: VA Department of Taxation; SFC Staff estimates.

- Tight labor market will drive increases in average wages while employment growth slows.
- Growth in wages and salaries should result in steady increases in withholding collections.

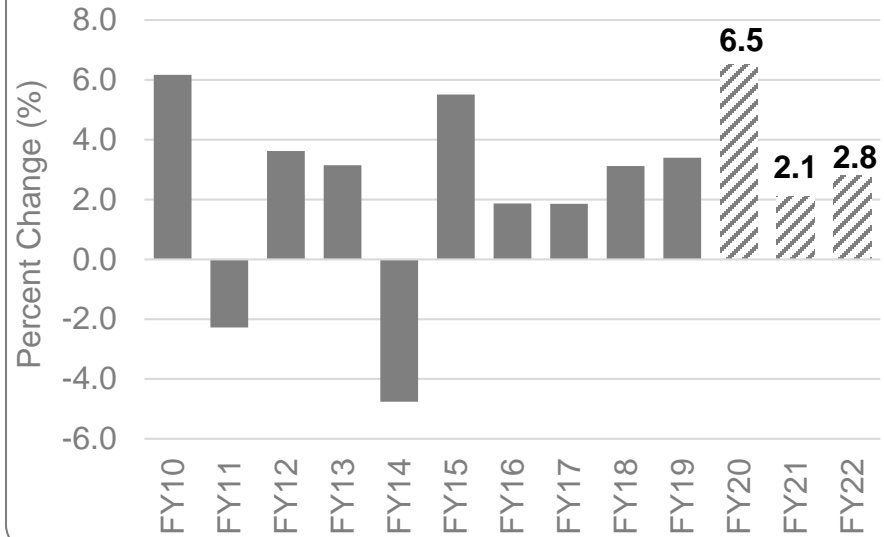
# Rising Incomes and Additional Internet Sales Lift Sales Tax Revenues

Growth in Personal Income



Source: Federal Reserve Bank of St. Louis and U.S. Bureau of Economic Analysis.

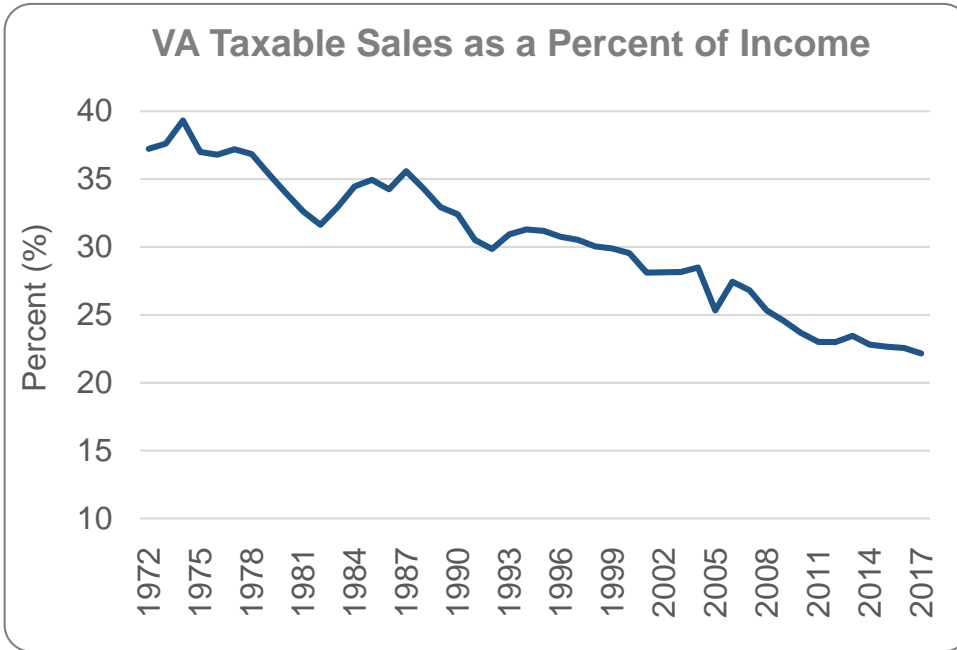
Growth in Sales Tax Collections



Source: VA Department of Taxation; SFC Staff estimates.

- YTD growth is almost entirely attributable to new retail sales and use tax dealers (i.e. Wayfair).
- In FY 2021-22, the first \$40 million is transferred to the Major Headquarters Workforce Grant Fund.

# Broader Trend Puts Long-term Pressure on Sales Tax Collections

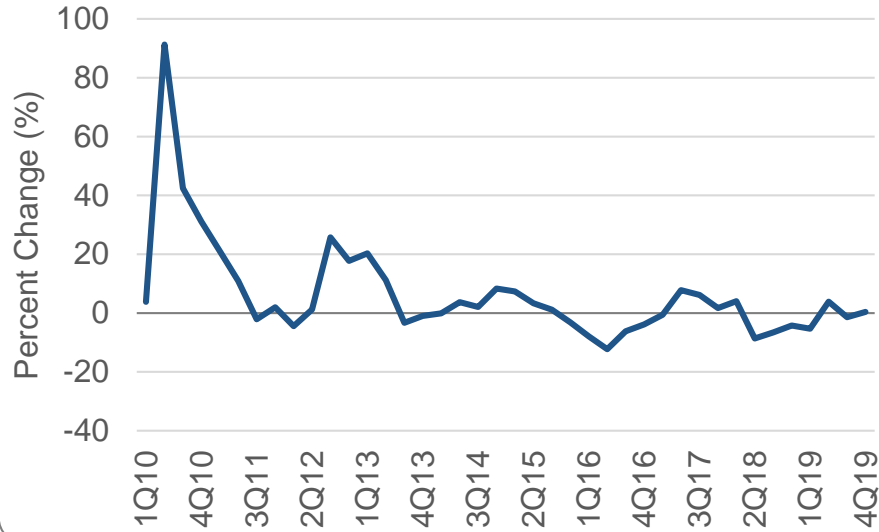


Source: SFC staff analysis of data from the U.S. Bureau of Economic Analysis and the Weldon Cooper Center for Public Service.

- Consumers are purchasing more services that are not subject to the sales tax (e.g. ride sharing, streaming movies and music).
- Many consumer goods have become relatively less expensive over time (e.g. TVs, furniture, etc.).
- If the trend continues, sales tax revenues will likely grow more slowly in the future.

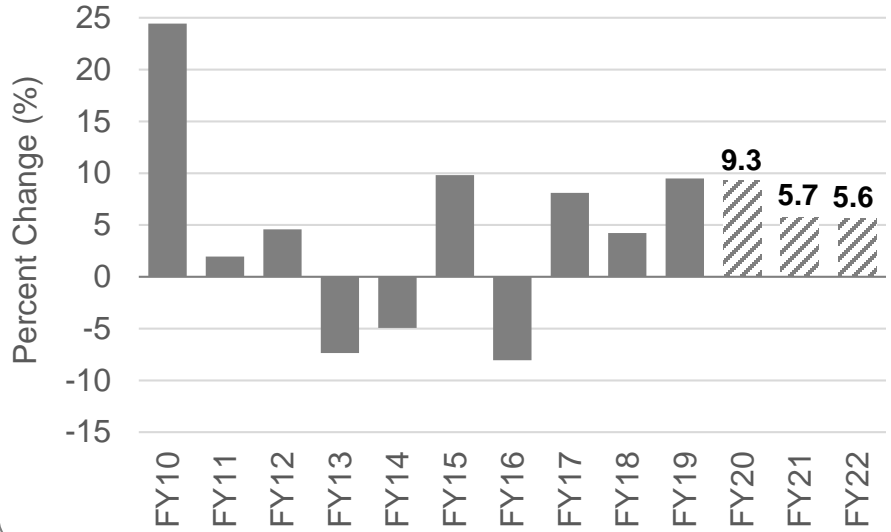
# Corporate Income Tax

Corporate Profits, Before Tax



Source: Federal Reserve Bank of St. Louis and U.S. Bureau of Economic Analysis.

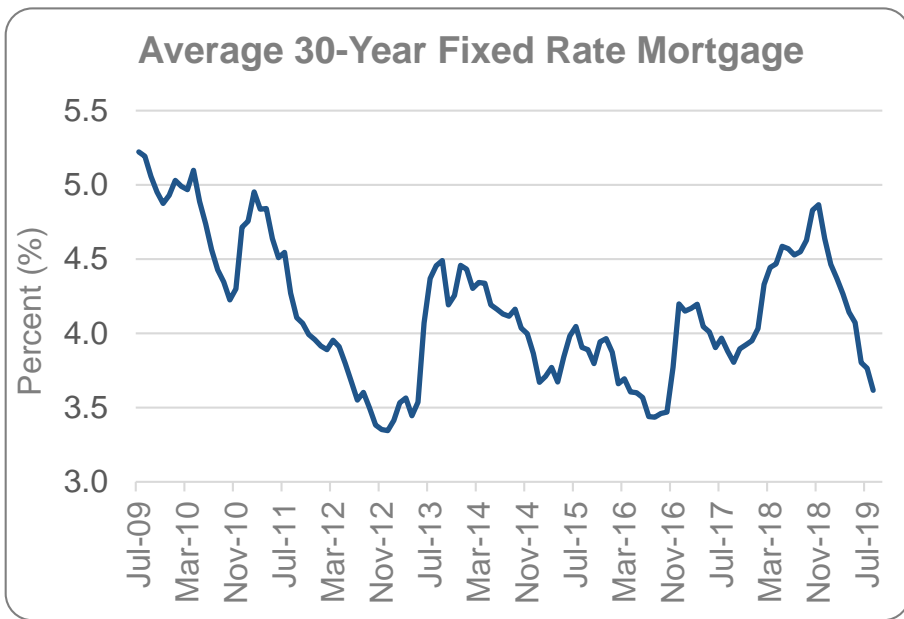
Growth in Corporate Tax Collections



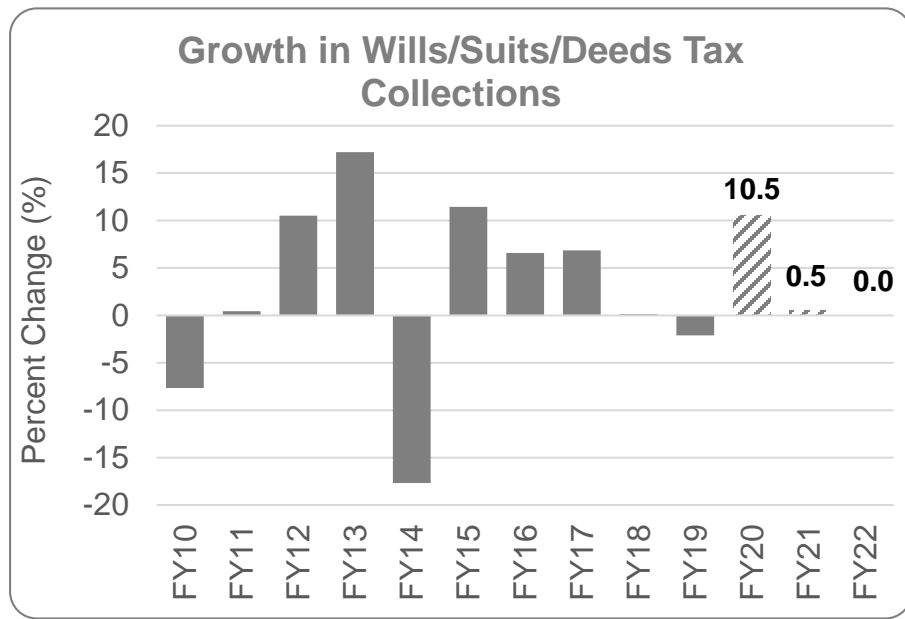
Source: VA Department of Taxation; SFC Staff estimates.

- Corporate profits are likely to be impacted in the event of an economic slowdown.

# Recordation Tax Revenues Rebounded This Year – But the Increase May be Temporary



Source: U.S. Bureau of Economic Analysis.



Source: VA Department of Taxation; SFC Staff estimates.

- The recent drop in interest rates stimulated refinance activity which boosted recordation tax revenues, but gains are likely unsustainable over the forecast horizon.

# Next Steps

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## 2019 Revenue Forecasting Schedule

- **October 17.** Joint Advisory Board of Economists (JABE) reviewed outlook for the current and next biennium.
- **November 25.** Governor's Advisory Council on Revenue Estimates (GACRE) reviews economic and revenue outlook for current and next biennium.
  - Cross-section of leaders from Virginia business and industry, General Assembly leadership.
  - Members review forecast developed by Governor's staff.
- **December 17.** Governor's revised forecast and proposed amendments to the FY 2020 budget and 2020 – 2022 biennial budget are presented to the Joint Money Committees.

# 2020-22 Budget Pressures & 2020 Session Outlook

# Two Budget Bills

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- In even-numbered sessions, action is taken to amend the current year budget (FY 2020) and to adopt a budget for the biennium that starts July 1, 2020.
- **SB 29 (“Caboose Bill”)** – Amends the CURRENT budget (Ch. 854) to reflect revised revenue estimate, required spending, and any savings in FY 2020.
  - **Goes into effect when signed by the Governor.**
- **SB 30** – the proposed biennial budget for the next two fiscal years, FY 2021 and FY 2022.
  - **Goes into effect on July 1, 2020.**

# Large Adjustments for the Caboose Bill

- Caboose bill agency requests total \$55.2 million for FY 20.
  - Largest requests are in Commerce & Trade, HHR, and Public Safety (inmate healthcare and Hepatitis C costs).
- Almost \$2.0 million need for foster care/adoption assistance and the Children's Health Insurance Program.
- Does not include the \$42.2 million for K-12 updates.
- Positive Medicaid forecast adjustment of almost \$212 million; this was unanticipated.
- Additional resources from the SFC staff revenue forecast are \$187.6 million in FY 2020.

## FY 2020 GF Caboose Adjustments (\$ in millions)

Caboose Agency Requests/Other Agency	(\$57.2)
K-12 Updates	(42.2)
Medicaid Forecast Update	211.7
Health Care Fund Offset	53.1
Additional Revenue (SFC staff estimate)	<u>187.6</u>
<b>Total</b>	<b>\$353.0</b>

# Calculating the Base Budget

- **Base budget** = cost of maintaining **current** services and caseloads (FY 2020 appropriation).
- **One-time** spending items are **deducted** from the base year budget (e.g. cash reserve deposits).
- On-going items that are **not fully funded** in FY 2020 are **added** to the base (e.g. new position costs, partial-year items).

2020-22 GF Base Budget Calculation (\$ in millions)	
Ch. 854, FY 2020 GF Approp. X 2	\$45,495.6
Minus: One-time Spending	(1,414.2)
Plus: Technical Adjustments	<u>89.4</u>
<b>Total, Adjustments to Base</b>	<b><u>(1,324.8)</u></b>
<b>Biennial (Two-Year) GF Base</b>	<b>\$44,170.8</b>

# Developing the 2020-22 Budget

## Projected Resources Compared to the Base Budget

(\$ in millions)	FY 2021	FY 2022	2020-22
SFC Projected GF Resources	\$23,273.5	\$24,119.4	\$47,392.9
GF Base Budget	<u>(22,095.5)</u>	<u>(22,075.3)</u>	<u>(44,170.8)</u>
Resources Above Base	\$1,178.0	\$2,044.1	\$3,222.1

# Agency Requests Total \$4.3 billion for 2020-22 Biennium

Secretarial Area (\$ in millions)	FY 2021	FY 2022
Administration	\$33.5	\$43.3
Agriculture & Forestry	3.2	2.4
Commerce & Trade	177.8	162.4
Education	1,309.8	1,299.1
Executive Offices	1.2	1.2
Finance	3.7	4.2
Health & Human Resources	349.3	422.6
Independent Agencies/APA	5.2	5.2
Judicial	15.4	19.1
Natural Resources	154.9	108.2
Public Safety & Homeland Security	82.2	77.7
Veterans & Defense Affairs	<u>21.2</u>	<u>26.2</u>
<b>Grand Total</b>	<b>\$2,157.4</b>	<b>\$2,171.6</b>

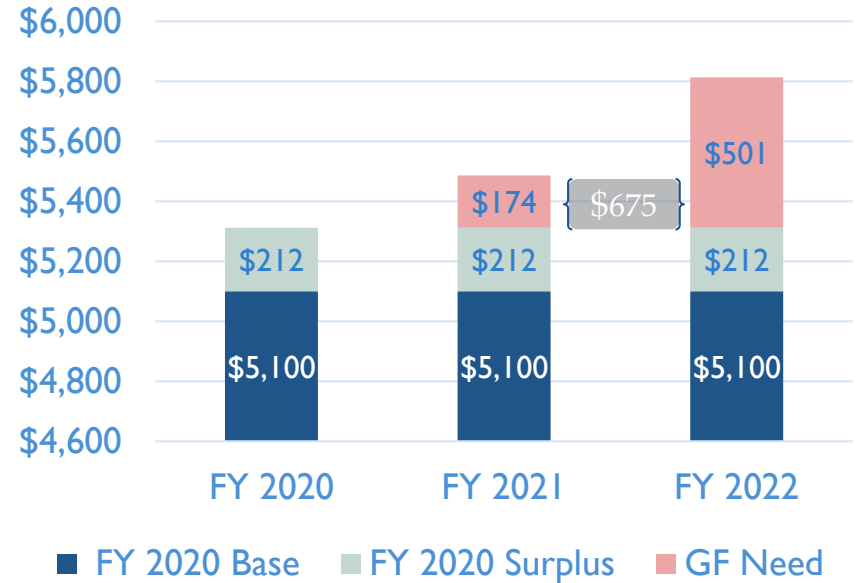
- Agency requests total more than \$4.3 billion for the biennium.
- This does not include:
  - Medicaid Forecast.
  - Costs for an across-the-board salary increase.

2020-22 Funding Commitments/Budget Pressures (\$ in millions)	FY 2021	FY 2022
K-12 Rebenchmarking (November 2019 Update)	\$405.2	\$438.7
Medicaid Forecast	174.4	500.5
Taxpayer Relief Fund	165.2	183.3
Debt Service Payments (staff estimate)	54.0	114.0
Children's Health Insurance Programs (\$114 million from match rate change)	61.5	87.0
STEP-VA	61.1	78.1
Department of Justice Agreement/ Waiver Slots and Compliance	25.4	35.9
Children's Services Act	10.8	22.3
Dept. of Social Services - SNAP Error Rate Repayment and Child Welfare Forecast	10.3	14.3
Catawba Hospital – Additional 56 Beds	9.4	10.4
Virginia Center for Behavioral Rehabilitation – Expanded Facility Operating Costs	4.1	14.6
Major Employment and Investment Project/Economic Development Incentives	41.9	25.1
Tech Talent – Higher Education Operating Costs	15.2	15.2
Inmate Healthcare, DOC Hepatitis C Drug Costs, DOC Prison Pilot with UVA/VCU	22.5	28.5
Virginia Retirement System State Employee Contribution Rates	25.6	25.6
State Health Plans (staff estimate)	18.0	54.0
Training Center Closures	(14.0)	(30.1)
<b>TOTAL</b>	<b>\$1,090.6</b>	<b>\$1,617.4</b>

# Medicaid Forecast

- The official forecast for the 2020-22 Biennium is an additional GF need of **\$675 million**.
- The revised forecast for FY 2020 is a GF savings of **\$212 million** from the current appropriation.
- Last year's forecast added **\$260.3 million GF** for FY 2020.
- Official forecast anticipates overall Medicaid spending will increase:
  - 1.0% in FY 2020
  - 7.2% in FY 2021
  - 5.9% in FY 2022

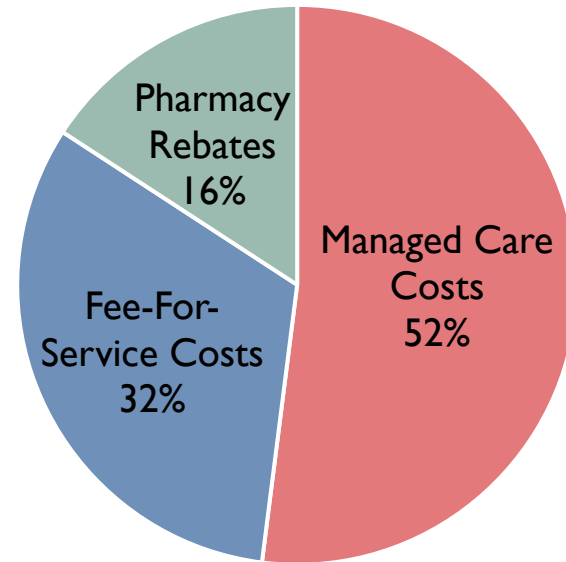
**November 2019 Medicaid Forecast**  
(Dollars in Millions)



# Medicaid Forecast Drivers – FY 2020

- Managed Care and Fee-For-Service costs mainly lower due to larger population shifts from Base Medicaid to Expansion.
- Other factors, such as Pharmacy Rebates, reflect assumptions that were not accurate.

Sources of \$212 million  
Medicaid GF Savings in FY 2020



# 2019 Forecast for FY 2021 and FY 2022 Driven Largely by Managed Care Rates and Enrollment

## Managed Care:

- Managed care rates reflect increasing costs of both managed care programs and enrollment growth.

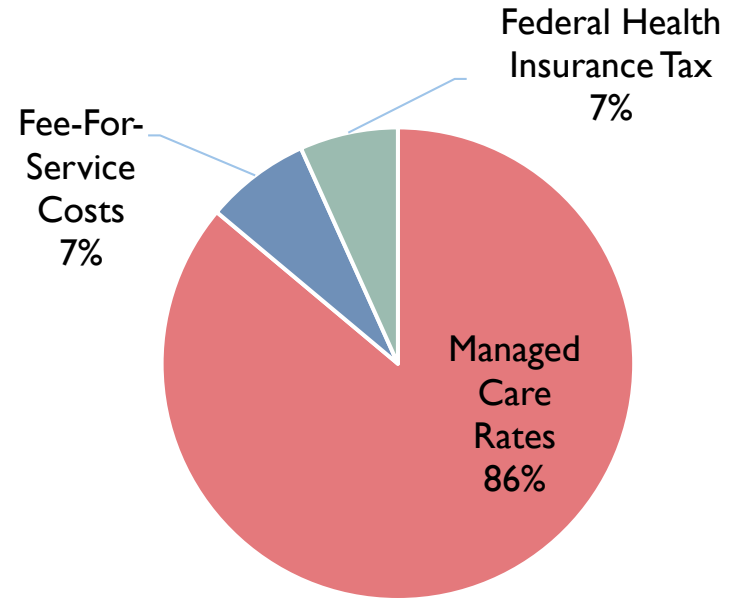
## Fee-For-Service (FFS) Costs:

- Hospital and nursing home inflation and enrollment growth.

## Federal Health Insurer Tax

- Congress suspended the tax for FY 2020, but it is in effect going forward.

Sources of \$675 million  
Medicaid GF Need



# Budget Outlook 2020 Session

## Comparing projected resources to spending needs

- Available resources from the economic forecast (excluding TCJA) are sufficient to cover major budget pressures. However, there are many other items that would typically be considered.

### 2020-22 Budget Outlook

(\$ in millions)	FY 2021	FY 2022	2020-22
SFC Projected GF Resources	\$23,273.5	\$24,119.4	\$47,392.9
GF Base Budget	<u>(22,095.5)</u>	<u>(22,075.3)</u>	<u>(44,170.8)</u>
Resources Above Base	\$1,178.0	\$2,044.1	\$3,222.1
Less: Major Budget Pressures/Commitments	<u>(1,090.6)</u>	<u>(1,617.4)</u>	<u>(2,708.0)</u>
<b>Net Available Resources*</b>	<b>\$87.4</b>	<b>\$426.7</b>	<b>\$514.1</b>

\*Including estimated balances from FY 2020, total available resources may be as high \$867 million (includes approximately \$353 million in one-time resources).

# Other Possible Funding Commitments/Priorities

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- **Rainy Day Fund and Water Quality Improvement Fund** – reservation amounts.
- **Salary Increases** – 1 percent increase for all groups (classified state employees/state-supported employees, teachers, and faculty) = approximately \$85 million per year.
- **HHR Issues** – Medicaid: additional adjustments and provider rates; other initiatives to relieve pressure on mental health beds in state hospitals, reinsurance program, etc.
- **Higher Education** – SCHEV recommendations = \$212 million over the biennium.
- **Public Safety** – Capital outlay projects related to beds or short-term alternatives, probation recovery support, and staffing issues.
- **Housing and Community Development** – Broadband, Housing Trust Fund.
- **Capital Outlay** – Deferred maintenance, previously planned projects.
- **Education Initiatives** – State Board of Education SOQ revisions, pre-K, and other support.
- **Natural Resources** – Land conservation, dam safety, and state park operations.

# Outlook & Challenges - 2020 Session

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- Additional revenue should be available to address major budget pressures and commitments; funding for other high-priority requests will need to be weighed against structural balance.
  - One-time items can be balanced with on-going spending.
  - There are some already known expensive funding commitments and/or risks (Medicaid forecast, K-12 Rebenchmarking, other HHR pressures, MEI, etc).
- Agency budget requests are significant, over \$4.3 billion.
- “Gray machines” continue to impact Lottery sales and decrease projected proceeds available for K-12.
- Caution should be heeded as 2014 and 2016 serve as a reminder that there is often volatility in tax collections late in the fiscal year.
- There are many additional capital outlay requests that need to be balanced with projects already in the pipeline and available debt capacity.

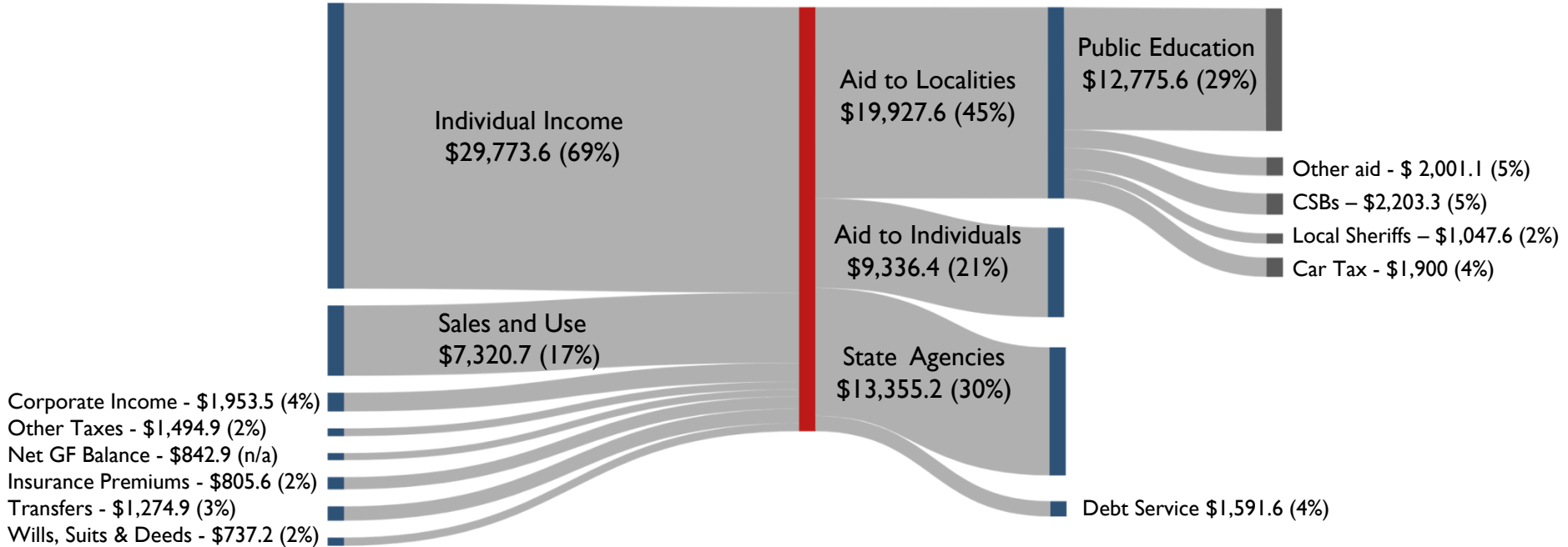
# Appendix

# FY 2018-20 General Fund Revenues and Operating Budget

## Chapter 854 (HB 1700, as Adopted)

### General Fund Revenues

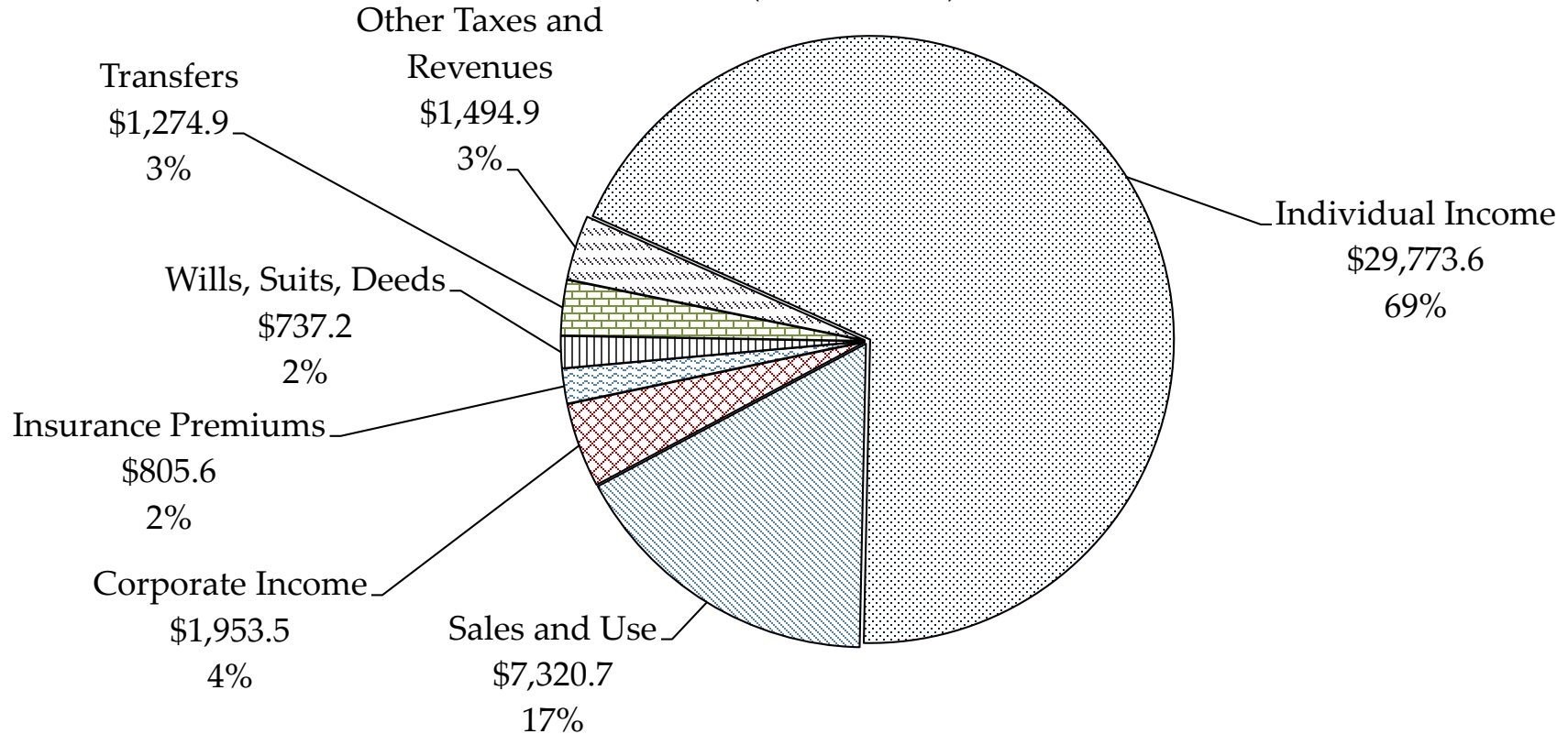
### General Fund Appropriations



# FY 2018-20 General Fund Revenues = \$43.4 billion

Chapter 854 (HB 1700, as Adopted)

(\$ in millions)



# FY 2018-20 GF Operating Budget = \$44.2 billion

Chapter 854 (HB 1700, as Adopted)

(\$ in millions)

